Attachment 1

California Public Employees' Retirement System
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September 27, 2011

Donald Berwick, MD, MPH
Administrator
Centers for Medicare & Medicaid Services
7500 Security Boulevard
Baltimore, MD 21244

Re: Response to Standards Related to Reinsurance, Risk Corridors, and Risk Adjustment (CMS-9975-P)

Dear Dr. Berwick:

The California Public Employees' Retirement System (CalPERS) supports efforts by the Centers for Medicare & Medicaid Services (CMS) to mitigate the impact of potential adverse risk selection and stabilize premiums in the individual and small group markets as insurance reforms and the Affordable Insurance Exchanges are implemented in 2014.

CalPERS is the nation's second largest purchaser of health care services, providing health benefits to more than 1.3 million public employees, retirees, and their families.

Our comment pertains to the preamble to §153.220. CMS invites comments regarding the preferred method for calculating a health insurance issuer contribution rate. In developing the proposed rule, CMS considered two methods for determining contributions using a national rate:

1. A percent of premium amount applied to all contributing entities, and
2. A flat per capita amount applied to all covered enrollees of contributing entities.

CMS proposes the percent of premium method as the preferred way in which to determine these contributions.

CalPERS is concerned that if CMS were to use a percent of premium to calculate the contribution rate, it would be setting a precedent using a formula that could adversely impact the market. Assessing the contribution on a percent of premium may lead to adverse selection issues which would have a negative impact on high risk plans; the very thing the reinsurance program seeks to address. Plans with high risk populations typically incur higher premiums than other similar plans in the same market. Under the percent of premium method, contributions for plans with higher risk populations would drive premiums higher, encouraging lower risk plan members to migrate to lower cost plans, potentially creating a premium spiral effect from the adverse selection. This is especially concerning given the current economic climate and consumers' resulting price sensitivity. Last, we are concerned the percent of premium formula may be counterproductive to CMS efforts to create incentives for employers to continue offering retiree health coverage, which are disproportionately more expensive.

We are pleased to offer our comments and hope that CMS will consider them in the final rule.

Sincerely,

Ann L Boynton

Ann Boynton
Deputy Executive Officer
Benefit Programs Policy and Planning